

CITY OF SILVER CITY

INDEPENDENT ACCOUNTANT'S
REPORT ON THE STATUS OF PERIODIC EXAMINATION
FINDINGS AND RECOMMENDATIONS

FOR THE PERIOD
DECEMBER 1, 2015 THROUGH MAY 31, 2016

Table of Contents

	<u>Page</u>
Officials	3
Independent Accountant's Report on the Status of Periodic Examination Findings and Recommendations	5

Detailed Recommendations:	<u>Finding</u>	
Segregation of Duties	A	7
City Council Minutes	B	8
Certified Budget	C	8
Disbursements	D	8
Transfers	E	9
Payroll	F	9
Pre-numbered Receipts	G	9
Financial Reporting	H	9
Bank Reconciliations	I	9
Journal Entries	J	10
Official Depositories	K	10
Investment Policy	L	10
Investments	M	10
Clerk's Report	N	10
Computer System	O	11
Credit Card Policy	P	11

Additional Findings Identified During Follow-up procedures:

Bank Reconciliations	Q	11
Council Minutes	R	11
Financial Reporting	S	12
Pre-numbered Receipts	T	12

City of Silver City

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Tommy Jensen	Mayor	January,2018
Paula Reeves	Council/Mayor Pro tem	January 2020
Barbara Miller	Council Member	January 2018
Amy Freuck	Council Member	January 2020
Mitch Bauge	Council Member	January 2020
Wendell Kasprick	Council Member	January 2020
Peggy Shields	City Clerk	Indefinite
Matt Woods	Attorney	January 2016

City of Silver City

MUXFELDT ASSOCIATES, CPA, P.C.

Certified Public Accountant

Independent Accountant's Report on the Status of Periodic
Examination Findings and Recommendations

October 20, 2016

Lonnie G. Muxfeldt
Certified Public
Accountant

Harlan Office:

2309 B Chatburn Ave.
P.O. Box 551
Harlan, IA 51537-0551

Ph. (712) 755-3366
Fax (712) 755-3343

Avoca Office:

305 W. High Street
P.O. Box 609
Avoca, IA 51521-0609

Ph. (712) 343-2379
Fax (712) 343-5012

www.muxfeldt-cpa.com
firm@muxfeldt-cpa.com

Licensed In:

Iowa
Missouri

To the Honorable Mayor
and Members of the City Council:

Muxfeldt Associates, CPA, P.C. issued a Periodic Examination Report dated September 5, 2014 on the City of Silver City, Iowa covering the period August 1, 2013 through July 31, 2014 pursuant to Chapter 11.6 of the Code of Iowa. The report included certain findings and recommendations pertaining to the City's financial processes and compliance with laws and regulations.

This report includes the findings and recommendations from the City's Periodic Examination Report date September 5, 2014 and the current status of the City's implementation of the recommendations included in that report. It also includes additional findings and recommendations for other issues identified during our follow-up procedures.

The City Council has a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity. Many of the findings included in this report indicate the City Council needs to exercise additional fiduciary oversight.

Oversight by the City Council is essential and should be an ongoing effort by all members. The City Council should exercise due care and require and review pertinent information and documentation to ensure the reliability of financial information and compliance with laws and regulations. Appropriate policies and procedures should be adopted, implemented and monitored to ensure compliance.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Silver City and other parties to whom the City of Silver City may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Silver City during the course of our follow-up procedures. Should you have questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Muxfeldt Associates, CPA, P.C.

**Report on the Status of Periodic Examination
Findings and Recommendations**

Findings Reported in the Periodic Examination Report dated December 3, 2014:

(A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:

- (1) Cash – handling, reconciling and recording.
- (2) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
- (3) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (4) Payroll – recordkeeping, preparation and distribution.
- (5) Financial reporting – preparing and reconciling.
- (6) Journal entries – preparing and journalizing.
- (7) Accounting System – performing all general accounting functions including journal entries and having custody of assets.
- (8) Computer system – performing all general accounting functions and controlling all data input and output.
- (9) Investing – recordkeeping, investing, custody of investments and reconciling earnings.
- (10) Debt – recordkeeping, compliance and debt payments.

Recommendation – I realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations and journal entries should be evidenced by the signature or initials of the reviewer and the date of the review.

Current Status – Not corrected. The recommendation is repeated.

Findings Reported in the Periodic Examination Report dated December 3, 2014:

- (B) City Council Minutes – Chapter 372.13 (6) of the Code of Iowa requires that the minutes of all City Council proceedings be published within fifteen days of the meeting and include a summary of total receipts received by each fund, a summary of total disbursements from each fund, a summary of ordinances or amendments adopted and annual individual gross salaries are published as required. Although the minutes were published within fifteen days, none of the minutes tested included total of receipts or disbursements summaries by fund. There were three instances found during testing where resolutions were passed with one or more Council members absent.

Recommendation – The City should comply with the Code of Iowa and publish minutes that include a summary of receipts and disbursements by fund. The city should comply with Chapter 380.4 of the Code of Iowa and refrain from voting on ordinances, amendments and resolutions unless all seats of the council are present at such meeting. The City should consult legal counsel as to the validity of resolutions and ordinances passed without proper representation of all Council seats.

Current Status – Partially corrected. Published minutes did not include a summary of total receipts by fund nor a summary of total disbursements by fund. In addition, see finding (R).

- (C) Certified Budget – Disbursements during the year ended June 30, 2014 exceeded the amounts budgeted in public safety, general government, debt service, and transfers. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Current Status – Corrected.

- (D) Disbursement – It was noted during testing that disbursements were issued prior to City Council approval. Also, invoices and other supporting documentation was not available to support one credit card disbursement tested. Also, when multiple invoices were paid on one disbursement, the top invoice was defaced but corresponding invoices included in the disbursement were not defaced or marked “paid”.

Recommendation – All disbursements should be approved for payment by the City Council before issuance. A Council Resolution give the City Clerk authorization to pay claims before Council approval if penalties or interest will be charged by holding invoices until the next council meeting. Issuance of disbursements that do not qualify under the Council Resolution before council approval is not allowed. Disbursements should be approved by the City Council before issuance. The City should ensure supporting documentation for all credit card charges are retained before issuance of the disbursement. Also, all disbursements with multiple invoices should have each invoice defaced or marked “paid” to avoid possible payment of the invoice twice.

Current Status – Corrected.

Findings Reported in the Periodic Examination Report dated December 3, 2014:

- (E) Transfers – Transfers between funds was not approved by the City Council. Also, transfers were not included in the City’s annual budget.

Recommendation – The City Council should approve all inter fund transfers prior to the actual transfer and document the approval and amounts as part of the Council minutes. The anticipated transfers should be included in the City’s annual budget.

Current Status – Corrected.

- (F) Payroll – Although time sheets are maintained for employees, there is no indication that the time sheets have been reviewed or approved by appropriate supervisory personnel prior to payment.

Recommendation – Appropriate supervisory personnel should review and approve all employee hours before payroll checks are issued.

Current Status – Not corrected. The recommendation is repeated.

- (G) Pre-numbered Receipts – Pre-numbered receipts were not issued for all collections.

Recommendation -- The City should establish a protocol for using pre-numbered receipts for collections of City funds.

Current Status – Corrected. In addition, see finding (T).

- (H) Financial Reporting – The total fund balance on the June 30, 2014 Annual Financial Report did not balance with the City’s balance sheet by \$966. Also, The budget amounts on the Annual Financial report did not balance with the published budget.

Recommendation – The City should implement procedures to ensure financial transactions are properly recorded a timely basis and the Annual Financial Report reflects the appropriate balances.

Current Status – Corrected. In addition, see finding (S).

- (I) Bank Reconciliations – The cash and investments balances in the City’s general ledger were not reconciled to the bank and investment accounts balances monthly. Although the cash balances in the city’s general ledger were reconciled monthly, there was no independent review of the bank reconciliations.

Recommendation – The City should establish procedures to ensure bank and investments account balances are reconciled to the general ledger monthly and an independent person should review the reconciliations and document the review by signing or initialing the reconciliation.

Current Status – Partially corrected. There is no independent review of the bank reconciliations By an independent person. In addition, see finding (Q).

Findings Reported in the Periodic Examination Report dated December 3, 2014:

- (J) Journal Entries – Journal entries are not reviewed and approved by an independent person.

Recommendation – An independent person should review and approve all journal entries. Approval should be documented by signing or initialing and dating the journal entries.

Current Status – Not corrected. The recommendation is repeated.

- (K) Official Depositories – A resolution naming official depositories was adopted by the City Council as required by chapter 12C.2 of the Code of Iowa, but did not specify the the maximum amount that may be kept on deposit in each depository.

Recommendation – A resolution in amounts sufficient to cover anticipated balances at all approved depositories should be adopted by the City Council as required by Chapter 12C.2 of the Code of Iowa.

Current Status – Not corrected. The recommendation is repeated.

- (L) Investment Policy – The City has not adopted a written investment policy that complies with Chapter 12B.10B of the Code of Iowa.

Recommendation – The City approve and adopt a written investment policy that complies with Chapter 12B.10B of the Code of Iowa.

Current Status – Not corrected. The recommendation is repeated.

- (M) Investments – An accounting record or register is not maintained for each investment.

Recommendation – An accounting record or register for each investment which includes cost, description, date purchased, interest rate, maturity date and identifying number should be maintained.

Current Status – Corrected.

- (N) Clerks Reports – The Clerk's reports to the City Council include cash and investments balances but does not include receipts and disbursements or a comparison to the certified budget by function or a summary of beginning balance, receipts, disbursements, transfers and ending balance by fund.

Recommendation – To provide better control over budgeted disbursements and the opportunity timely amendments to the certified budget, the Clerk's monthly reports to the City Council should include comparisons to the certified budget by function. Also, for better financial information, monthly reports should also include the beginning balance, receipts, disbursements, transfers and ending balance by fund.

Current Status – Corrected.

Findings Reported in the Periodic Examination Report dated December 3, 2014:

- (O) Computer System – The following weaknesses in the City’s computer system were noted:

The City does not have written policies and procedures for:

1. Password privacy and confidentiality.
2. Requiring password changes periodically.
3. Allowing only authorized personnel to request password resetting.
4. Not allowing another employee to request a reset of password for another employee and then having access to this password.

Recommendation – The City should develop written policies and procedures addressing the above items to improve the City’s internal Control over the computer system.

Current Status – Not corrected. The recommendation is repeated.

- (P) Credit Card Policy -- The City has adopted a credit card usage policy, Resolution 9-13-08, but is not following the Resolution.

Recommendation – The City should adhere to the credit card usage policy as per Resolution 9-13-08.

Current Status – Not corrected. The recommendation is repeated.

Additional Findings as a result of follow-up Procedures:

- (Q) Bank Reconciliations -- The City did not prepare and maintain monthly outstanding check listings.

Recommendation -- The City should prepare and maintain monthly outstanding check listings to facilitate And support the monthly bank reconciliations.

- (R) Council Minutes – One of the published minutes tested did not contain a listing of the approved claims for payment nor the reason for the claim as required by Chapter 372.13 (6) of the Code of Iowa.

Recommendation – The City should comply with Chapter 372.13 (6) of the Code of Iowa and include with the published minutes a listing of all claims approved for payment along with the reason for the claim.

Findings Reported in the Periodic Examination Report dated December 3, 2014:

- (S) Financial Reporting -- The total fund balance on the June 30, 2016 Annual Financial Report did not balance with the City's balance sheet.

Recommendation -- The City should implement procedures to ensure financial transactions are properly recorded a timely basis and the Annual Financial Report reflects the appropriate balances.

- (T) Pre-numbered Receipts -- Pre-numbered receipts were not reconciled to the trial balance monthly.

Recommendation -- The City should establish a protocol for reconciling receipts for collections of City funds to the trial balance monthly.

NEWS RELEASE

Muxfeldt Associates, CPA, P.C. today released a Report on the Status of Findings and Recommendations on the City of Silver City's Periodic Examination Report dated December 3, 2014. The engagement was performed pursuant to Chapter 11.6 of the Code of Iowa and covered the period August 1, 2013 through July 31, 2014.

The City Council has a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity. Many of the findings included in this report indicate the City Council needs to exercise additional fiduciary oversight. All sixteen findings reported in the Periodic Examination Report dated December 5, 2014 are repeated in this report. While the City corrected seven of the sixteen findings, partially corrected two of the sixteen and seven of the findings are reported as "not corrected". Four additional findings identified during the follow-up procedures are also included in this report.

A copy of the Report on the Status of Findings and Recommendations from the City of Silver City's Periodic Examination Report dated December 3, 2014 is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/index>.